

Public Roundtable on:

**“Monitoring by the Department of Housing and Community Development of
Organizations (including Community Development Corporations)
and Projects Receiving Funding from the Department”**

Before

**The Committee on Economic Development
The Honorable Harold Brazil, Chairperson
Council of the District of Columbia**



**Testimony of Stanley Jackson
Director
Department of Housing and Community Development**

Thursday, March 14, 2002

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D.C. Department of Housing and Community Development**

**Before
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Introduction

Good afternoon, Chairman Brazil and members of the Committee on Economic Development. I am Stanley Jackson, the Director of the Department of Housing and Community Development. I am joined by members of my senior staff.

We are here today to discuss DHCD's oversight of the organizations and projects that receive federal funds from DHCD. As you are aware, the Department administers, on behalf of the city, approximately \$40 million in federal Community Development Block Grant and HOME funds each year from the U.S. Department of Housing and Urban Development (HUD). DHCD is responsible for ensuring that these funds are used to meet their statutory purposes – to develop a viable urban community by providing decent housing, a suitable living environment and

expanded economic opportunities, principally for persons of low and moderate income. To carry out this responsibility, we engage private organizations to assist us in fulfilling our mission, and monitor those organizations to ensure that they are carrying out the roles we have asked them – and paid them – to play.

When I came to the Department on July 31, 2001, I was immediately concerned about the way our funds were being managed. The D.C. Office of the Inspector General’s (OIG) February 2000 final report about DHCD’s administration of the funds provided to Community Development Corporations (CDCs) painted a grim picture of how this agency had monitored the performance of its grantees in the past. In response to this report and to my own assessment of DHCD’s needs, my staff and I began taking steps to improve our grantee monitoring functions. We also began to redesign our Neighborhood Development Assistance Program (NDAP), which we previously had used to fund CDC administrative costs.

Today we are in an environment where the public’s attention has been seized by the articles published in the Washington Post during the week of February 24th. This committee, Members of Congress, and the community at large are asking us to explain what the city has received from our investment in the CDCs.

Let me start by reassuring the public that in the days both before and since the articles were published, DHCD has been undertaking corrective actions to improve our monitoring of projects and grantees. Since I came to the Department, I have undertaken five key steps:

- (1) I have hired a new management team, including a Chief Operating Officer, a Director of the Office of Program Monitoring, a Director of Human Resources and a training specialist, to provide our staff with the training and oversight needed to improve their monitoring capacity.
- (2) My management team began and completed a redesign of the Neighborhood Development Assistance Program (NDAP), the vehicle by which the CDCs received funding, to create greater accountability and bring the program into full compliance with HUD regulations.
- (3) We completed the installation of the HDS project tracking system, to rationalize our data collection processes and increase our ability to track projects through to completion.

These steps were in place before February 24. In the days since, I have taken additional steps.

- (4) On March 5, I asked the Office of the Inspector General (OIG) to investigate the CDCs' use or misuse of federal funds. I have met with OIG twice since then.
- (5) I have asked our Office of Corporation Counsel to review each non-performing contract we have with the CDCs, to determine whether we can take legal action to withdraw funds or otherwise require corrective action on individual projects that they have failed to complete as promised.

These actions will place DHCD back on solid footing to ensure that we monitor our projects going forward, and they will allow us to correct the deficiencies of the past.

In the remainder of this testimony, I will discuss the three questions that the Committee has placed before us:

- (1) How DHCD monitors the use of funds it provides and whether the funding brings about the intended results;
- (2) How DHCD determines whether an organization is qualified to receive and expend DHCD funding; and
- (3) What our plan and timeline are to take corrective action.

Monitoring of Funds

In the past, as indicated in the OIG audit report as well as the Washington Post articles, the agency failed to adequately monitor its sub-recipients. As indicated in the HUD review dated November 2, 2001, DHCD’s grant agreements did not contain specific performance measures to allow for appropriate monitoring of expected outcomes. In my opinion, DHCD suffered from a lack of management continuity and oversight. DHCD lacked clearly defined roles and responsibilities related to both project monitoring and program monitoring; the staff did not have an understanding of how to monitor; and management did not fulfill its own responsibility to ensure that staff executed their monitoring duties.

As I have indicated in previous testimony, I recognize the importance of program monitoring and have moved to strengthen our monitoring processes. To improve DHCD’s monitoring efforts I have hired Wilma Matthias as our new Director for the Office of Program Monitoring (OPM), and I plan to recruit and hire additional staff. OPM is now charged with increasing its monitoring efforts to include both internal and external reviews that ensure compliance with all appropriate federal and District regulations. OPM is also responsible for ensuring that the agency is operating effectively and efficiently, and that organizations that receive funds from DHCD are using them for the purpose intended in accordance with the regulations.

OPM has begun its new monitoring efforts by reviewing the agency’s Development Finance Division Construction Assistance Program, the program that funds brick and mortar projects. OPM has discussed preliminary findings with staff, and it will issue a draft report to Department management on March 28. The Construction Assistance Program manager will be required to provide a corrective action plan for OPM’s findings by April 15, and the final report will be issued on April 30. In addition, using the improved performance based grant agreements, OPM plans to conduct quarterly monitoring reviews with the project managers for NDAP.

For both the Construction Assistance Program and NDAP, OPM has reviewed or will review both the Department’s and sub-recipients’ operations of the programs. Additional program reviews are planned throughout the fiscal year.

Qualifications of funded organizations

To qualify to receive funds, organizations must meet the compliance criteria outlined in the HUD regulations for the specific fund type, i.e. CDBG or HOME. For specific development funding, DHCD analyzes each proposal through an underwriting and project review process to determine if an organization can carry the project to fruition. Qualitative and quantitative factors considered in this determination include:

- Financial capacity;
- Soundness of the development program;
- Organizational capacity and professional expertise;
- Consultation with the affected ANCs and other community organizations; and
- Compliance with environmental and labor standards.

Under the old NDAP program, however, since that program was used to fund administrative costs of the CDCs, an organization qualified if it was a legally established CDC or CBO. The Department now has improved its procedures for determining the qualifications of organizations under the new NDAP. The Department is now intensely scrutinizing the capacity of the organizations to carry out the initiatives selected by the Department and for which the organizations are applying.

I will describe the improvements to NDAP later in this testimony, but let me say here that we recognize that we need to make improvements in other program areas, more specifically the Development Finance Division. We plan to develop a new application intake process and to resume issuing Notices of Funds Availability, so that we can better target the use of funds to meet the city’s strategic objectives. We will institute new policies and procedures for each loan product and ensure that our underwriting procedures are appropriate for each one; and we will include a performance based monitoring system. We anticipate that these improvements will be completed by the end of the fiscal year.

DHCD corrective actions

As I mentioned at the outset, I have taken corrective actions to specifically address the matter of the CDCs' use of the city's funds. I have asked the OIG to investigate the allegations of misuse of federal dollars and conflict of interest.

I also have asked our Office of Corporation Counsel to review the contracts we have with the CDCs, to identify cases where we have legal standing to terminate incomplete or inappropriately-managed projects and recapture the funds.

Even before the Washington Post articles were published, however, there were two major external reviews that required the Department to take corrective action: the OIG report on the DHCD's management of funds provided to CDCs, and HUD's November 2, 2001 letter on NDAP.

On January 18, 2000, the OIG issued a draft report on its audit of the administration of funds that DHCD provided to CDCs. The audit objectives were to determine whether DHCD:

- (1) Managed and used resources in an efficient, effective, and economical manner;

- (2) Complied with the requirements of applicable laws, regulations, policies and procedures; and
- (3) Implemented internal controls to prevent or detect material errors and irregularities.

The draft included nine findings representing improvements that were needed to “measure DHCD’s effectiveness and efficiency, monitor project performance, account for administrative funding used for projects, control expenditures for CDBG activities, detect and resolve employee conflicts of interest, detect and resolve conflicts of interest of CDC employees, retain records in accordance with regulations, improve internal auditing, and respond to questions from District Councilmembers.”

The OIG’s draft report directed twenty-three (23) recommendations, corresponding to the nine findings that they believed were necessary to correct the deficiencies.

On February 7, 2000, DHCD responded to the OIG recommendations with specific actions to implement the recommendations. The OIG issued its final report on February 22, 2000.

On January 15, 2002, the OIG issued a draft report entitled “District Agencies’ Implementation of Audit recommendations” that included the results of their follow-up review on DHCD. In this report, the OIG stated that DHCD took actions to address all but two (2) of the 23 recommendations. The OIG in the same report also considered one of the two outstanding recommendations closed. In my response dated February 7, 2002 (exactly two years from the original response), I stated after a complete review of DHCD’s existing records that we were unable to find detailed timesheets that the OIG required to clear the other recommendation.

I have asked OPM to review the current status of each of the recommendations. We have found that in several cases, while we have addressed the recommendations we have not yet fully implemented our actions. For example, in OPM’s recent Construction Assistance program review, we learned that the Development Finance Division’s project monitoring checklist was not in use even though it had been developed in response to the findings. As a result of OPM’s finding, Development Finance staff have been directed to use this instrument and instructed that failure to do so will result in appropriate disciplinary action.

In short, Mr. Chairman and members of the Committee, DHCD is fully committed to correcting both the immediate problem of CDC use of funds and the underlying deficiencies that allowed the problem to arise.

Redesign of the Neighborhood Development Assistance Program

I would like to highlight our redesign of the Neighborhood Development Assistance Program because this program is central to the matter at hand. The November 2, 2001 HUD letter and my own assessment confirmed that NDAP had to be completely redesigned. I would like to recount for you our activities to redesign the Neighborhood Development Assistance Program. At the NDAP hearing held on September 27, 2001, we came before you to discuss the funding and administration of NDAP and advise you of our intentions to revise NDAP in accordance with CDBG guidelines and issue a Request For Applications (RFA) on October 9, 2001. We received direction from you to provide clarity, seek input, and to build consensus with the community-based organizations regarding the RFA and new NDAP. In addition, you requested that we provide at least an additional quarter of funding to the existing CDCs and that we reconsider extending the funding period, amount, and basis for changes with adequate guidance from HUD.

As I advised you at that time, in order to honor your request, we would have to use Appropriated Funds for the additional quarter of funding.

Based on our review, we decided that DHCD needed to establish performance-based contracts for the FY 2002 grants that defined performance measures and expected outcomes. We further decided to increase the level of monitoring on all sub-recipients to ensure that they are in full compliance with District and federal regulations. We also determined that DHCD could not support CDC administrative functions and overhead costs that could not be directly tied to service delivery. The wisdom of these decisions was confirmed when HUD issued its November 2nd monitoring letter on NDAP. This letter stated that the Department should discontinue all payments to CDCs for costs defined as “core funding” that were not directly tied to a CDBG eligible activity. HUD also noted that NDAP’s written agreements with CDCs were not specific enough to allow for effective monitoring. HUD expressed concern regarding the frequency and inclusiveness of the agency’s monitoring of CDCs under NDAP.

As stated in our correspondence to you on October 2nd and 3rd 2001, we advised you that the new NDAP program would be in place by January 2002. In short,

what we did to resolve these problems was to issue a FY 2002 RFA that, unlike previous years' RFAs, covered only one fiscal year, with a renewable option. We targeted the RFA to meet the Mayor's Neighborhood Action Initiative and citizen's recommendations in CDBG eligible areas, rather than allowing the CDCs to designate their own projects without regard for the city's strategic priorities. We further raised the bar by making the RFA open to competition from all non-profits, Community Based Organizations (CBOs), and CDCs that had the expertise to carry out programs and activities. As a result, we awarded contracts to six organizations that had not previously participated in NDAP, and five organizations that had received funds in the past did not receive them this year. The contracts that we signed during the week of January 20, 2002 contain performance requirements. We are sending project managers to monitor the CDCs' operations twice monthly, and OPM will join them on a quarterly basis.

In conclusion, the OIG audit report, the HUD letter, and the Washington Post articles serve as a history lesson on what occurs when there is a lack of management continuity and oversight. Under my watch, the Department is taking corrective steps to become a more efficient and effective operation. The redesign

of NDAP is a building block to future successes as we move forward to overhaul our programs to make DHCD a model agency.

Thank you for the opportunity to speak before you today. I welcome any questions you may have.

Attachment 1:

HUD LETTER OF NOVEMBER 2, 2001

Attachment 2:

CURRENT STATUS OF INSPECTOR GENERAL’S FINDINGS AND RECOMMENDATIONS RELATED TO THE “AUDIT OF DHCD’S MANAGEMENT OF FUNDS PROVIDED TO COMMUNITY DEVELOPMENT CORPORATIONS” (OIG-11-99CD)

Finding 1 (summary) “MEASURING DHCD’s EFFECTIVENESS AND EFFICIENCY”	
<p>The Department of Housing and Community Development (DHCD) did not effectively manage \$150 million in Community Development Block Grant (CDBG) funds during fiscal years 1994 through 1999.</p> <ul style="list-style-type: none"> DHCD did not use a large percentage of CDBG funds. DHCD’s Development Finance Division (DFD) did not measure performance or evaluate the progress of any of the 34 projects funded during the 1994-1999 period. DHCD’s Residential and Community Services Division (DRCS) had an inadequate system for evaluating grantee performance. None of the measurement tools contained all the required quantifiable information. 	
DHCD Response to Finding 1	
<p><i>Original response, January 2000</i></p> <ul style="list-style-type: none"> DHCD is implementing the Housing Development Software (HDS) project management system that will track grants, applications, project status, etc. The system will be in place in the spring of 2000. DHCD will spend its federal grant funds. DHCD has restructured the method of awarding subgrants for projects. DHCD issued a Notice of Funding Available (NOFA) for CDBG and HOME Funds for fiscal year (FY) 2001. DHCD reviews Community Development Corporation (CDC) performance under NDAP through performance evaluations and monitoring reports. DRCS reviews bi-monthly project review forms, the project review section of the scheduled monitoring report, and work plans. DRCS also conducts unscheduled visits to NDAP grantees. 	<p><i>Updated response, March 2002</i></p> <ul style="list-style-type: none"> HDS went on-line in March 2002. DHCD has prepared a spending plan to ensure that the various divisions bring spending into compliance with federal requirements by July 2002. The Neighborhood Development Assistance Program (NDAP) used a Request for Application (RFA) process for FY 2002 grants. DHCD plans to use a NOFA process for development projects in FY 2003. NDAP grant agreements contain more specific performance information to allow for more effective monitoring. DRCS NDAP project managers are conducting bi-monthly visits to grantees. DHCD’s Office of Program Monitoring (OPM) will conduct quarterly reviews with NDAP project managers, and review the monitoring work of the project managers.

Recommendation 1	
The Director, DHCD should establish a strategic plan that outlines specific improvements DHCD will commit to over the period and that incorporates a performance measurement system for projects.	
DHCD Response to Recommendation 1	
<i>Original response, January 2000</i> DHCD is aware of the need to establish a strategic alignment between its projects, the District’s strategic neighborhood initiatives, available funds, and its performance. A strategic plan will be developed. Target date to complete planned actions is April 30, 2000.	<i>Updated response, March 2002</i> DHCD has revised NDAP to include greater accountability measures. The eligible project types and target areas were established to align with the Administration’s priorities for redevelopment. DHCD’s Consolidated Action Plan – the annual application for federal HUD grants – is being drafted to further reflect Administration priorities.

Finding 2 (summary) “MONITORING PROJECT PERFORMANCE”	
<p>DHCD did not effectively monitor the progress and status of at least 71 of 108 projects.</p> <ul style="list-style-type: none"> • The Office of the Inspector General (OIG) could not determine the value of 37 unmonitored projects. • DHCD could not provide documentation for 11 administrative subgrants. • DHCD allocated only 3 employees to monitor 74 NDAP projects. • Lack of monitoring precluded the detection of delays in starting and completing projects and in detecting poor workmanship. • Projects were terminated without a full accounting of the total costs. 	
DHCD Response to Finding 2	
<p><i>Original response, January 2000</i></p> <p>(Summary:) The response explains DHCD’s NDAP monitoring and evaluation process in general without response to the specific findings. It notes that while some projects may not have begun construction, there was progress on pre-construction items such as securing technical studies, coordinating community involvement, negotiating with financial institutions, etc.</p>	<p><i>Updated response, March 2002</i></p> <p>DHCD’s DRCS and DFD are now required to conduct monitoring on a regular basis as part of their project management activities. In addition, OPM will conduct quarterly program reviews to ensure that the divisions’ monitoring is conducted. OPM also plans to conduct independent monitoring reviews of program subrecipients.</p>
Recommendation 2a	
<p>The Director, DHCD should develop, document, and implement procedures and controls for the Development Finance Division to ensure that projects are routinely and continuously monitored throughout the life of each project.</p>	
DHCD Response to Recommendation 2a	
<p><i>Original response, January 2000</i></p> <p>As a result of management reform effort undertaken by DHCD, new procedures were put in place for the Development Finance Division’s funding process. Procedures for monitoring recipients of funding for housing and community development projects are being developed. Target date to complete planned actions is April 30, 2000.</p>	<p><i>Updated response, March 2002</i></p> <p>DHCD’s DFD developed procedures and a checklist for monitoring projects. However, OPM’s recent Construction Assistance Program review found that the procedures were not fully implemented. As a result, management has reissued the procedures and made it mandatory for the staff’s use. OPM will conduct a follow-up review to ensure that these procedures are fully implemented.</p>

Recommendation 2b	
The Director, DHCD should develop a standardized monitoring report for the Development Finance Division that will capture and document activities and accomplishments of CDBG funded recipients that will also measure progress against goals and milestones.	
DHCD Response to Recommendation 2b	
<p><i>Original response, January 2000</i></p> <p>An integral part of the new monitoring procedures is the "Project Monitoring Checklist," which is to be completed each time a monitoring activity takes place on a project. This aspect will be discussed as part of the monitoring process to be developed. Target date to complete planned actions is April 30, 2000.</p>	<p><i>Updated response, March 2002</i></p> <p>See updated response to 2a above.</p>
Recommendation 2c	
The Director, DHCD should allocate adequate resources to the Residential and Community Services Division so that all administrative subgrant recipients and related projects are monitored.	
DHCD Response to Recommendation 2c	
<p><i>Original response, January 2000</i></p> <p>DHCD will initiate the actions to allocate the necessary resources to the Residential and Community Services Division. This action involves requesting the Chief Financial Officer, the Mayor, and the Financial Authority to approve an increase in DHCD's full time equivalents</p>	<p><i>Updated response, March 2002</i></p> <p>NDAP has been redesigned and is no longer used for "administrative subgrants". Therefore, the number of NDAP projects that require monitoring is significantly less than in prior years. Additional resources will be added to the OPM to ensure that all DRCS programs are operating effectively.</p>
Recommendation 2d	
The Director, DHCD should obtain and provide to the Office of the Inspector General supporting documentation for the eight terminated projects and the six "pictured" projects [described in the OIG report] that shows what was accomplished, related reports, and other documentation that shows what was spent on each project.	
DHCD Response to Recommendation 2d	
<p><i>Original response, January 2000</i></p> <p>Per the OIG request, supporting documentation for the eight terminated projects and the six pictured projects is attached [in original submission to OIG]. However, it should be noted that the pictures do not show what was accomplished with DHCD's administrative funds. Administrative funds were provided to pay for staff work on the project. It does not fund the actual development of the project.</p>	<p><i>Updated response, March 2002</i></p> <p>NDAP has been redesigned and no longer provides funds for administrative costs not directly tied to a project. Brick and mortar projects, including any associated project management costs, are funded from the Development Finance Division. DHCD has provided a chart showing the dollar amount of funds, by project and fiscal year, provided to CDCs since FY 1995.</p>

Finding 3 “ACCOUNTABILITY FOR ADMINISTRATIVELY FUNDED PROJECTS”

DHCD did not record or track by project the amount of funds expended for the administrative costs for at least 74 projects undertaken by the CDCs during fiscal years 1994 through 1999. DHCD paid the CDCs for vouchers submitted by the CDCs without requiring the CDCs to account for the funds spent on the projects. As a result, DHCD could not substantiate that the \$23.1 million it had awarded by subgrants to the CDCs was spent or will be spent for the purposes contained in the authorizing subgrants and the purposes of CDBG funds. In addition, we can not determine whether the total direct and indirect costs of a project, funded with CDBG funds, were correct.

DHCD Response to Finding 3

Original response, January 2000

(Summary:) DHCD agrees that the actual administrative costs cannot be determined because the administrative costs provided for under the subgrant was not intended solely for project development, but to provide overall administrative funding. DHCD notes that the funds disbursed were in keeping with the purposes of the authorizing subgrants.

Updated response, March 2002

NDAP has been redesigned and no longer provides funds for administrative costs not directly tied to a project.

Recommendation 3a

Establish procedures and controls that ensure that DHCD awards its grants and subgrants with provisions requiring CDCs and other grant and subgrant recipients to track administrative costs by project.

DHCD Response to Recommendation 3a

Original response, January 2000

(Summary:) DHCD agrees with this recommendation. Prior to the audit, DHCD initiated reengineering efforts that included the requirement to track administrative costs tied not only to projects but also to the other activities funded under the subgrant.

Updated response, March 2002

NDAP has been redesigned and no longer provides funds for administrative costs not directly tied to a project.

Recommendation 3b	
Ensure the CDCs and other recipients of DHCD grants or subgrants awarded in FY 2000 and subsequent years have an adequate cost tracking or allocation process in place before paying vouchers for administrative costs.	
DHCD Response to Recommendation 3b	
<i>Original response, January 2000</i> (Summary:) DHCD does not agree with this recommendation.	<i>Updated response, March 2002</i> NDAP has been redesigned and no longer provides funds for administrative costs not directly tied to a project. For the FY 2002, grant period, each organization was required to submit a detailed budget which shows how all costs will be allocated to the project(s). In addition, the organizations are required to submit cost allocation plans that show how DHCD's funded project costs compare to cost of the organizations' other activities. On February 21, 2002, the grantees were trained on cost tracking procedures.

Finding 4 “EXPENDITURES FOR CDBG ACTIVITIES”

DHCD authorized expenditures totaling \$12,850,000 for two projects, which includes \$11,745,000 that we consider questioned costs because DHCD did not provide to us sufficient documentation for review. As a result, we were unable to review expenditures for the Good Hope Marketplace Project (\$11.5 million) and the New York Avenue Metrorail Feasibility Station Study (\$245,000) to determine compliance with CDBG regulations and grant provisions.
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Recommendation 4

Provide the documentation to support the disbursements made for the Good Hope Marketplace Project and the New York Avenue Metrorail Feasibility Station Study.
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DHCD Response to Recommendation 4
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<i>Original response, January 2000</i>	<i>Updated response, March 2002</i>
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(Summary:) DHCD provided all available documentation.	The Good Hope Marketplace issue has been resolved with OIG. DHCD could not find the timesheets for the New York Avenue Metrorail Feasibility Station Study.
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Finding 5 (summary) “FINANCIAL DISCLOSURE OF EMPLOYEES”	
DHCD controls over financial disclosure forms were ineffective in disclosing or resolving conflicts or potential conflicts of interest of DHCD employees. DHCD employees did not always identify their financial interests, reviewers did not obtain additional information to make sound decisions when financial interest were disclosed, and employees did not submit their financial disclosures on time.	
DHCD Response to Finding 5	
<i>Original response, January 2000</i> (Summary:) DHCD took immediate actions to correct its financial disclosure process including conducting training, reviewing the disclosure statements, and tracking positions required to file the disclosure statements.	<i>Updated response, March 2002</i> DHCD’s ethics counselor will ensure that all required employees submit financial disclosure statements timely and that they are reviewed as required.
Recommendation 5a	
Reinitiate the calendar year 1999 annual financial disclosure process after training employees, who are in positions designated to file disclosure statements, in the requirements of the DC Personnel Manual, Chapter 18	
DHCD Response to Recommendation 5a	
<i>Original response, January 2000</i> DHCD scheduled a training session for its employees to go over the preparation of the financial disclosure statement and to provide an overview of the DPM, Chapter 18, Section 1813. The Ethics Counselor for the District Government was expected to be in attendance at the training session to answer questions and provide clarification. DHCD intended to reissue the Financial Disclosure forms after the training session with an expedited turnaround time for completion.	<i>Updated response, March 2002</i> On January 24, and 31, 2002, DHCD held mandatory Ethics Training for all employees. The District Government Ethics Counselor conducted the training on a variety of ethic topics.
Recommendation 5b	
Require employees involved in the review process to obtain sufficient additional information before evaluating employee disclosure statements	
DHCD Response to Recommendation 5b	
<i>Original Response, January 2000</i> DHCD designated the Office of Corporation Counsel to serve as the reviewer of the financial disclosure statements, and notified the District Ethics Counselor of the findings related to the financial disclosure statements.	<i>Updated response, March 2002</i> DHCD’s Ethic Counselor will continue to monitor this process to ensure its effectiveness.

Recommendation 5c	
Establish and track positions subject to filing disclosure statements to ensure that employees who fill these positions file disclosure statements within 10 days.	
DHCD Response to Recommendation 5c	
<i>Original response, January 2000</i> DHCD established a list of positions subject to the financial reporting process and tracks those positions as they are filled.	<i>Updated response, March 2002</i> DHCD’s Ethics Counselor will continue to monitor this process to ensure its effectiveness.

Finding 6 “CONTROLS OVER CONFLICT OF INTEREST AT CDCS”

The CDCs did not have adequate controls and procedures to prevent and detect conflicts of interests by the officers, board members, and employees. DHCD had not included within its subgrant agreements and loans to the CDCs a specific requirement for conflicts of interest. Only one CDC had a system, procedures, or other means to monitor or detect conflicts of interests by its officers and employees. As a result, we could not be assured that the CDCs used CDBG funds in the most judicious manner, uninfluenced by personal financial interests of CDC board members, officers, and employees.

Recommendation 6a

Include a requirement within subgrant and loan agreements that ensure CDCs and other recipients of CDBG funds have written standards of conduct that address all applicable elements of Title 24, Sections 570.611, 85.63(b)(3), and 84.42

DHCD Response to Recommendation 6a

Original response, January 2000
 (Summary:) DHCD agrees to do so.

Updated response, March 2002
 All grant and loan agreements are prepared by the Office of Corporation Counsel and contain language that specifically incorporates Federal and District conflict of interest provisions that apply to grant/loan recipients. Loan/grant recipients are required to maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts to address the prohibition against any real or apparent conflict of interest. The conflict of interest provisions apply to the procurement of supplies, equipment, construction and services related to the funded project.

Recommendation 6b

Include a requirement within subgrant and loan agreements that ensure CDCs and other recipients of CDBG funds require employees, officers, and board members to submit annual and supplemental statements of financial interests for review by appropriate recipient officials to detect potential conflicts of interest.

DHCD Response to Recommendation 6b

Original response, January 2000
 FY 2000 CDC grants agreements will be amended by March 31, 2000 to require CDCs to provide annual statements of financial interests for employees, officers and board members for review by DHCD personnel. ...

Updated response, March 2002
 Loan/grant agreements currently include conflict of interest language and requirements. See updated response to 6a above. However to strengthen oversight of this process, the DHCD Director will immediately require that the Office of

	Corporation Counsel add to all loan/grant agreements language requiring the submission of the subrecipients conflict of interest policies and procedures within 15 days of execution of the agreements.
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Finding 7 “RECORD MAINTENANCE AND RETENTION”

DHCD did not always have required records available to substantiate the specific details of 31 subgrants and loans, totaling \$7,321,282, that were awarded to CDCs during FY 1994 through FY 1998. ... In general, we attribute the lack of adequate record keeping to the general disorganization of DHCD and the lack of continuity in executive management, which in turn, caused DHCD to disregard the requirements of District regulations.

Recommendation 7a

Establish procedures and controls that ensure DHCD employees adhere to record keeping and retention requirements of Chapter 29 and 50 of the DCMR.

DHCD Response to Recommendation 7a

Original response, January 2000
 (Summary:) DHCD agrees to do so.

Updated response, March 2002
 DHCD prepared and submitted its Records Retention and Disposition Plan to the DC Office of Public Records. Each Division has a Records Assistant assigned to maintain our projects and records in the manner and format described in the Records Retention and Disposition Plan. The Department will hire or train an overall Agency Records Officer. As a result of OPM's Construction Assistance Program review, DFD is working in conjunction with OPM to assure that all project files are maintained in a way that has required project documentation included and organized in a way that is easily accessible. During its upcoming NDAP review, OPM will ensure that project files are complete. Reviews of other DHCD programs will include project file documentation.

Recommendation 7b

Establish a continuing program to achieve efficient and economical records management so that users have ready access to documentation of the DHCD organization, functions, policies, decisions, procedures, and essential truncations in accordance with DCMR, Section 2906(b).

DHCD Response to Recommendation 7b

Original response, January 2000
 DHCD has taken a proactive approach in quantifying the problem and identifying a solution to achieve efficient and economical records management. The Department is currently in contract negotiation with a firm that develops and

Updated response, March 2002
 The record management software was not purchased/implemented. Through OPM's program reviews, DHCD will establish project file documentation requirements. OPM has conducted a program review for the Development

markets software solution to archive, access and distribute valuable document assets. The product will allow the entire Department to manage and retrieve documents ... in accordance with DCMR Section 2906(b) ... This record management software will be fully implemented by December 31, 2000.	Finance Division Construction Assistance Program and documentation requirements have been completed. It is anticipated that NDAP program reviews will begin on April 1, 2002 for the Residential and Community Services Division and file documentation requirements will be established as a part of the process.
Recommendation 7c	
Locate the missing documents and related files identified in Table C and mark the files so that they are retained for potential future audit by the OIG. These documents and related files should not be destroyed until the criteria provided in the DCMR has been met, or September 30, 2002, whichever is later.	
DHCD Response to Recommendation 7c	
<i>Original response, January 2000</i> (Summary:) DHCD followed federal retention requirements in the past; it now will adopt the District requirements as well. The audit occurred as DHCD was moving its offices, and in preparation for the move DHCD disposed of some of the files sought by the OIG.	<i>Updated response, March 2002</i> See updated responses above.
Recommendation 7d	
Establish performance standards for DHCD employees that make them accountable for maintenance of official records.	
DHCD Response to Recommendation 7d	
<i>Original response, January 2000</i> A performance measure, Maintenance of Official Records in Accordance with District and Federal Requirements, will be included in performance standards and elements for all appropriate DHCD employees.	<i>Updated response, March 2002</i> DHCD's Human Resources Officer recently issued job descriptions to each employee and is currently developing performance standards. Each manager recently received draft performance standards for review and comment. The Human Resources Officer will ensure that this performance measure is included. DHCD plans to finalize the performance standards by April 1, 2002, and implement them by May 1, 2002.

Finding 8 “INTERNAL AUDITING”

The Division of Audit lacked controls to ensure the Division and its auditors meet Government Auditing Standards and had not completely fulfilled its mission to provide audit coverage to DHCD functions because of its concentration on grant subrecipients. We attributed the lack of audit coverage throughout DHCD to the lack of a planning process to weigh risks of auditable areas to fraud, waste, and mismanagement and to the placement of the Division within DHCD’s Office of the Comptroller, which lacks the authority and independence to audit all aspects of DHCD. In addition, the auditors were performing functions more suitable to project monitors and accountants than auditors. As a result, the Division and its auditors have not always met generally accepted government auditing standards (GAGAS), and areas of higher risk within DHCD have not been subjected to internal audit coverage.

Recommendation 8

- a. Move the Audit Division to the Office of the Chief Operating Officer.
- b. Expand the scope of potential audit coverage to include all DHCD activities and functions.
- c. Prepare and execute an annual audit plan with sufficient flexibility to allow for emergent (unplanned) audit work and develop the plan based on an assessment of risk of DHCD activities to fraud, waste, and mismanagement.
- d. Discontinue routine use of auditors for non-audit efforts.
- e. Revise position descriptions and organizational functional statements to require DHCD auditors and the Division to comply with Government Auditing Standards.

DHCD Response to Recommendation 8

Original response, January 2000

DHCD will provide responses to each of these recommendations by February 15, 2000.

Updated response, March 2002

For the OIG’s follow-up review, DHCD stated that the Division of Internal Audit was an Office of the Chief Financial Officer component that could not be realigned to the Chief Operating Officer. The OIG considered this recommendation closed.

However, since August 2001, DHCD has redesigned the focus of the Office of Program Monitoring to include audits of agency activities and functions, as well as its subrecipients. DHCD plans on increasing OPM staff levels to implement each of the above five recommendations.

Finding 9 DHCD PROCEDURES FOR RESPONDING TO QUESTIONS FROM DISTRICT COUNCILMEMBERS

DHCD failed to respond timely to questions by a Councilmember during a Committee hearing. DHCD ultimately provided the information as it had agreed to do but only after over 90 days had elapsed and after his office notified DHCD that it had not provided the information to the Councilmember.

Recommendation 9

Provide the OIG with the approved written controls and procedures that ensure DHCD responds timely to Councilmember and Committee requests for information.

DHCD Response to Recommendation 9
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<i>Original response, January 2000</i>	<i>Updated response, March 2002</i>
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Formal procedures are being developed and will be reviewed by the Office of Intergovernmental Relations under the Office of the Mayor before its implementation. DHCD will provide the written controls and procedures by March 31, 2000.	The procedures were developed and were distributed to DHCD staff on March 31, 2000. They were redistributed to staff in February 2002.
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Attachment 3:

NEIGHBORHOOD DEVELOPMENT ASSISTANCE PROGRAM TRANSITION PROCESS

The following information summarizes the transition process for the new Neighborhood Development Assistance Program (NDAP):

- The Department of Housing and Community Development (DHCD) prepared a new Request for Application (RFA);
- The application was specific to what DHCD wanted to accomplish based on the Mayor's Neighborhood Action Initiative for FY 2002 and in response to citizens recommendations in the Strategic Neighborhood Action Plan/Target Areas;
- DHCD opened the competition to all non-profits, Community Based Organizations (CBOs), and Community Development Corporations (CDCs) that had the expertise to carry out specific program/activities;
- The 2002 RFA covered one fiscal year, with a renewable option;
- On September 27, 2001, Councilmember Harold Brazil, Chairperson, Committee on Economic Development held a hearing on NDAP and requested that DHCD provide clarity, seek input, build consensus, reconsider the funding period and amount, and provide gap funding for the CDC's to ease the transition of the currently funded organizations until the 2002 NDAP Grant Agreements were in place;
- DHCD complied and provided gap funding for a period of ninety (90) days for the period beginning October 1, 2001 through December 31, 2001, utilizing appropriated dollars (an increase from the original 60-day proposal). These funds were disbursed on November 5th and December 7th;
- DHCD modified the FY 2001 grant agreement for each CDC, extending the grant period from September 30, 2001 to December 31, 2001;

- DHCD met with the CDC representatives and formed a working group to provide clarification to the RFA and several aspects of the new NDAP;
- The Department began the competitive procurement process for the new NDAP, by issuing the Request for Application and making it available to the public October 9, 2001;
- On November 9, 2001, we sent out a "Notice" that the pre-application conference would be held on November 16th, and issued Addendum I to approximately 145 organizations that picked up the original RFA. Addendum I provided clarity to items contained in the RFA, and additional details on selected targeted areas and activities;
- On November 13, 2001, the Department issued the Policy Statement on "Moving the Neighborhood Development Assistance Program Forward", which outlined the rationale for the change, and the support mechanism for CDC in the transition to the new program. The Department also extended the receipt date of the RFA to December 7, 2001;
- On November 16, 2001, DHCD held a Pre-Application conference on the specifics of the RFA and answered inquiries from attendees. Pre-Applicants were given until close of business on November 19, 2001 to submit additional questions;
- On November 20, 2001, we forwarded Addendums II and III to all recipients of the RFA. The Addendum's addressed the questions received as a result of the Pre-Application conference;
- On December 7, 2001, the Department received 34 applications;
- Of the 34 applications received, 25 met the procurement process guidelines necessary for review;
- DHCD formed an evaluation review and selection panel consisting of four representatives from the private sector and three from the public sector;

- The panel met and began the evaluation process of the 25 applications in accordance with the RFA requirements on December 12, 2001;
- The panel met as a group for six and a half-day working sessions between Monday, December 17, 2001 and Wednesday, January 2, 2002;
- On January 3, 2002, DHCD was advised of the panels selection of successful applicants for the new 2002 NDAP;
- The awardees were advised of their selection via telephone on January 4, 2002 and by letter January 8, 2002;
- Contract negotiations began January 9, 2002 and ended the week of January 20, 2002. A team from the Department composed of senior staff from the CFO's Office, and the Division of Residential Services along with program management staff met with applicants and negotiated the contract details including budget, performance measurements, and programmatic concerns. Corporation Council prepared and reviewed the contract language, and DHCD entered into performance based contracts with all successful applicants on January 30, 2002;
- From February 4, 2002 through February 15, 2002 DHCD Program Managers have met with sub-recipients to go over requirements and monitor the ongoing processes;
- On February 21, 2002, all successful 2002 awardees were required to attend a training to go over key items effecting the delivery of services i.e. cost allocation plans, A-133 Audit, fair housing, cost reimbursement, environmental review process and program monitoring

Next Steps

- Very aggressive monitoring to determine if organizations have met their targeted performance goals by Program Managers and quarterly monitoring by the Office of Program Monitoring